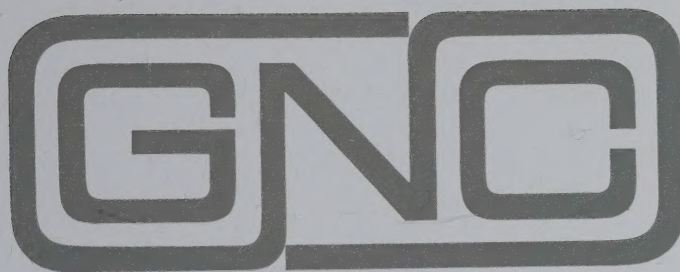


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ANNUAL REPORT

1965

GREAT NORTHERN CAPITAL CORPORATION LIMITED

GREAT NORTHERN CAPITAL CORPORATION LIMITED

The Annual Meeting of shareholders of Great Northern Capital Corporation Limited will be held on June 28, 1966 at 2.00 p.m. (Eastern Daylight Saving Time) at the head office of the Company, 35 Old Mill Road, Toronto, Ontario. Shareholders not planning to attend in person are requested to execute and send in their proxies.

Board of Directors

A. L. BEATTIE, Q.C. - - - - - Toronto, Ontario
B. V. BOCK - - - - - Houston, Texas
J. O. BOISI - - - - - New York, New York
G. E. CREBER, Q.C. - - - - - Toronto, Ontario
G. F. H. NELSON - - - - - New York, New York
J. E. McCONNELL - - - - - Toronto, Ontario
A. P. MURPHY - - - - - Toronto, Ontario
R. M. THOMSON - - - - - Toronto, Ontario
J. P. WALWYN - - - - - Toronto, Ontario

Officers

ALLAN L. BEATTIE, Q.C. - - - - - PRESIDENT
A. ROY VOELKER, C.A. - - - - - VICE-PRESIDENT,
SECRETARY AND TREASURER
DONALD E. FOX, C.A. - - - - - ASSISTANT SECRETARY
AND ASSISTANT TREASURER

**Registrars and
Transfer Agents**

CROWN TRUST COMPANY—Toronto, Montreal, Calgary and Vancouver
COMMON SHARES AND SERIES CX SHARE PURCHASE WARRANTS
THE BANK OF NOVA SCOTIA TRUST CO. OF NEW YORK
COMMON SHARES

Listing

The Common Shares and Share Purchase Warrants are listed on The Toronto
Stock Exchange.

Auditors

DELOITTE, PLENDER, HASKINS & SELLS - - - - - Toronto

Head Office

35 OLD MILL ROAD - - - - - Toronto, Ontario



GREAT NORTHERN CAPITAL CORPORATION LIMITED

TO THE SHAREHOLDERS:

As indicated in our letter to you dated August 17, 1965, the default by Atlantic Acceptance Corporation Limited followed by its receivership resulted in a severe contraction in the value of your Company's assets and in the elimination of earnings from that subsidiary. In the accompanying financial statements write-downs of your Company's investment in Atlantic totalling over \$5,800,000 have all but eliminated consolidated surplus.

Net income as reported for 1965 amounted to \$150,811 (8¢ per share) as compared with \$1,226,287 (65¢ per share) in 1964. In addition, during 1965, the Company realized gains on the sale of investments and fixed assets totalling \$798,167 (42¢ per share). The main reasons for the reduction in net income were the elimination of earnings from Atlantic Acceptance, as stated previously, and a loss incurred by Western Heritage Properties Limited of \$372,142 as opposed to a profit of \$52,925 for the period July 1 (date of acquisition) to December 31, 1964.

Operations of your Company in the development of land in the Township of Etobicoke, Toronto were again maintained at a high level, with dollar sales being over \$2,700,000. It is expected that 1966 sales in Etobicoke will substantially exceed those of 1965, although it should be noted that the Company's Etobicoke land development programme is nearing completion.

Although, as stated previously, the receivership of Atlantic caused a severe loss to your Company, nevertheless its working capital position is almost \$2,000,000 and your Company's available finances are more than sufficient to maintain the planned levels of operations of all of its many enterprises.

At the close of 1965 your Company took steps to directly acquire all of the shares of Commodore Sales Acceptance Limited which company was already controlled by your Company through its ownership of Atlantic Acceptance. As you are aware Commodore suffered substantial losses during 1965 and your Company expects that it will be able to utilize these losses to offset income that otherwise would be taxable. In acquiring Commodore your Company has not assumed any of its obligations or encumbrances whatsoever.

Western Heritage Properties Limited

Your Company continues to own approximately 79% of the common shares of Western Heritage Properties Limited and in the accompanying financial statements the assets and operations of your Company are fully consolidated with those of this subsidiary company.

The annual report for 1965 to the shareholders of Western Heritage has been published and accompanies this report to the shareholders of Great Northern.

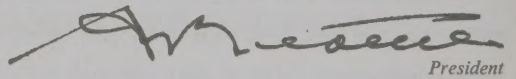
Although substantial initial losses experienced at the newly acquired brick plants of Western Heritage materially adversely affected the earnings of Western Heritage in 1965, indications are that 1966 will show much improvement. It is expected that operating losses of these brick plants will be substantially reduced and that Western Heritage will show a consolidated operating profit for 1966.

General

Changes in the Board of Directors of your Company took place at the close of the year. The new Board has been examining carefully the various business operations conducted directly by the Company and indirectly through its subsidiaries and believes that the operations of the Company will be successful and profitable in the years to come.

Particularly in view of the difficult period through which the Company has passed during the year, the Board wishes to record its appreciation to the employees of the Company who have continued to carry out their duties in an effective and co-operative fashion.

June 8, 1966.



President

GREAT NORTHERN CAPITAL CORPORATION LIMITED AND ITS CONSOLIDATED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1965

(with comparative figures for the thirteen-month period ended December 31, 1964)

Sales:	1965	1964
Land - - - - -	\$4,859,567	\$4,838,560
Manufacturing and other - - - - -	3,131,572	1,291,488
	<u>7,991,139</u>	<u>6,130,048</u>
Cost of sales:		
Land - - - - -	1,770,345	2,235,020
Manufacturing and other - - - - -	1,923,200	588,258
	<u>3,693,545</u>	<u>2,823,278</u>
Gross profit - - - - -	4,297,594	3,306,770
Dividends and interest - - - - -	363,951	436,130
Other income - - - - -	45,081	97,472
	<u>4,706,626</u>	<u>3,840,372</u>
Expenses:		
Operating, selling and administrative - - - - -	2,772,429	1,490,792
Interest:		
Long-term debt - - - - -	541,761	465,134
Other - - - - -	279,264	207,940
Directors' fees - - - - -	8,500	7,000
Depreciation - - - - -	300,825	121,572
Amortization of debt discount and financing expenses - - - - -	10,538	5,133
	<u>3,913,317</u>	<u>2,297,571</u>
	793,309	1,542,801
Appraisal surplus earned on land sold during the year (see Note C) - - - - -	107,625	179,274
	900,934	1,722,075
Provision for income taxes (see Note H) - - - - -	810,100	864,400
	<u>90,834</u>	<u>857,675</u>
Add:		
Minority interest in loss (profit) of a subsidiary company - - - - -	59,977	(13,800)
	<u>150,811</u>	<u>843,875</u>
Add:		
Company's share of consolidated net income of an unconsolidated subsidiary company—Atlantic Acceptance Corporation Limited (see Note A) - - - - -	—	382,412
Net income - - - - -	<u>\$ 150,811</u>	<u>\$1,226,287</u>

The accompanying notes are an integral part of the financial statements.

GREAT NORTHERN CAPITAL CORPORATION LIMITED

CONSOLIDATED

AS AT DECEMBER 31, 1965 AND 1964

(with comparative figures for 1963)

ASSETS

Current:	1965	1964
Cash - - - - -	\$ 280,683	\$ 1,777,172
Accounts receivable - - - - -	1,108,074	856,712
Amounts receivable under sale agreements - - - - -	2,693,917	3,249,434
Marketable investments (see Note B) - - - - -	511,600	1,857,292
Inventories:		
Land, including development expenditures of \$1,131,441 in 1965 and \$1,061,586 in 1964 (see Note C) - - - - -	1,987,370	1,498,445
Other, at the lower of cost or net realizable value - - - - -	543,492	233,508
Notes and mortgages receivable due within one year (see Note D) - - - - -	2,322,600	346,862
Prepaid expenses - - - - -	117,785	120,349
Total current assets - - - - -	9,565,521	9,939,774
Land inventory, less amount included in current assets (see Note C) - - - - -	3,950,099	3,417,236
Land options (see Note E) - - - - -	93,550	80,462
Notes and mortgages receivable, less amounts due within one year included in current assets - - - - -	1,087,318	618,673
Investments:		
Unconsolidated subsidiary company: (see Note A)		
Shares, nominal value - - - - -	1	5,220,450
Notes, estimated value - - - - -	875,000	—
Other, at estimated value - - - - -	34,875	102,500
Advances to a partnership in a land development project not fully activated, at cost	155,436	154,725
Other assets - - - - -	62,893	60,392
Fixed assets (see Note F) - - - - -	4,936,142	3,437,498
Unamortized debt discount and expense - - - - -	87,707	98,913
Approved by the Board:		
A. L. BEATTIE, Director		
A. P. MURPHY, Director	\$20,848,542	\$23,130,623

The accompanying notes are an integral part of these financial statements.

ND ITS CONSOLIDATED SUBSIDIARY COMPANIES

ALANCE SHEET

BER 31, 1965

at December 31, 1964)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current:	1965	1964
Bank indebtedness—secured 1965 \$3,587,739; 1964 \$3,121,467 - - - - -	\$ 3,877,842	\$ 3,121,467
Accounts payable and accrued expenses - - - - -	855,977	518,330
Income taxes payable - - - - -	71,820	159,197
Accrued interest - - - - -	100,135	75,111
Deposits on future land sales - - - - -	166,700	155,872
Estimated costs to complete subdivisions under development - - - - -	648,602	848,536
Demand notes payable—secured - - - - -	845,092	500,000
Current instalments on long-term debt - - - - -	1,015,098	649,363
Total current liabilities - - - - -	<u>7,581,266</u>	<u>6,027,876</u>
Long-term debt, less current instalments included in current liabilities (see Note G) - -	9,741,204	8,778,172
Estimated future income taxes (see Note H) - - - - -	2,388,047	1,609,600
Minority interest (see Note I) - - - - -	4,433	1
Shareholders' equity: (see Notes J, K and L)		
Capital stock—		
Authorized: 2,500,000 shares without par value		
Issued and fully paid: 1,878,630 shares (1,878,500 in 1964) - - - - -	979,233	978,195
Surplus—per statement - - - - -	154,359	5,736,779
Total shareholders' equity - - - - -	<u>1,133,592</u>	<u>6,714,974</u>
	<u>\$20,848,542</u>	<u>\$23,130,623</u>

l part of the financial statements.

GREAT NORTHERN CAPITAL CORPORATION LIMITED AND ITS CONSOLIDATED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1965

(with comparative figures for the thirteen-month period ended December 31, 1964)

EARNED SURPLUS (DEFICIT)

	1965	1964
Balance at beginning of the year - - - - -	\$5,193,559	\$4,663,827
Add:		
Net income—per statement - - - - -	150,811	1,226,287
Gain on sale of investments - - - - -	412,682	1,579,202
Gain on sale of fixed assets (includes appraisal surplus earned of \$269,638 in 1964) - - - - -	385,485	197,932
	<u>948,978</u>	<u>3,003,421</u>
	6,142,537	7,667,248
Less:		
Dividends paid - - - - -	422,667	657,475
Write-down of investment in a subsidiary company (see Note A):		
Shares to a nominal value of \$1 - - - - -	5,428,100	—
Senior secured notes to an estimated realizable value - - - - -	375,000	—
Write-off of excess of cost of investment in subsidiary companies over the underlying book value of their consolidated net assets at dates of acquisition - - - - -	1,243	1,816,214
Write-down of marketable and other investments to an estimated realizable value (see Note B) - - - - -	196,763	—
	<u>6,423,773</u>	<u>2,473,689</u>
Balance at end of the year - - - - -	(281,236)	5,193,559

APPRAISAL SURPLUS (see Note C)

Balance at beginning of the year - - - - -	543,220	992,132
Deduct:		
Amount earned on land sold during the year - - - - -	107,625	179,274
Amount earned on sale of fixed assets during the year - - - - -	—	269,638
	<u>107,625</u>	<u>448,912</u>
Balance at end of the year - - - - -	435,595	543,220
Net surplus - - - - -	<u>\$ 154,359</u>	<u>\$5,736,779</u>

The accompanying notes are an integral part of the financial statements.

GREAT NORTHERN CAPITAL CORPORATION LIMITED AND ITS CONSOLIDATED SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1965

NOTE A:

In the accompanying financial statements the accounts of the Company have been consolidated as at December 31, 1965 with those of its subsidiary companies, except for the accounts of Atlantic Acceptance Corporation Limited which was placed in receivership on June 17, 1965. The Company's investment in 53% of the common shares of Atlantic has been written down to the nominal value of \$1 and its investment in senior secured notes of Atlantic has been written down to an estimated realizable value of 70% of the face amount of the notes.

The operating losses of two subsidiary companies are included in the accompanying consolidated statement of income for the periods since dates of acquisition, February 28 and March 31, 1965.

NOTE B:

Marketable investments are valued at subsequent realization value or quoted market value at December 31, 1965, which is \$104,140 less than cost. The 1964 comparative figure was at cost, as subsequent realization value or quoted market value at December 31, 1964 was \$145,008 in excess of cost.

NOTE C:

The Company's land account was restated in 1954 to reflect the value determined by an independent appraisal at fair market value made in 1953 and subsequent acquisitions were recorded at cost. The amount of the appraisal write-up remaining in the account as at December 31, 1965 was \$435,595 (\$543,220 in 1964) of which \$210,364 (\$146,850 in 1964) was included in current assets. This appraisal write-up will be subject to income taxes as the appraised land is sold.

NOTE D:

Notes and mortgages receivable due within one year include notes with a face value of \$1,870,000 due on February 28, 1966 to a subsidiary company. The notes are secured by a second mortgage on certain lands forming part of a proposed real estate development. Subsequent to the year end, payment was not received on the due date, but no provision for doubtful recovery of principal and accrued interest has been made in the accompanying financial statements, as present indications are that a development company will take over the lands and that indebtedness to the subsidiary company will be repaid or renegotiated. In the event that this transaction does not close, it is anticipated that eventual realization of the lands would result in full recovery.

NOTE E:

Two subsidiary companies have options to purchase a total of 1,136 acres of land at prices varying from \$300 to \$2,300 per acre. The amount required to exercise all the options after deducting recoverable option payments of \$84,425 is \$584,862.

On December 22, 1965 one subsidiary company exercised options to purchase 47 acres of the land mentioned above for \$107,140. The subsidiary company obtained title to the property on January 28, 1966.

Note F:

Fixed assets, at cost, consist of the following:

	1965	1964
Land and land improvements - - - - -	\$ 312,151	\$ 286,101
Buildings - - - - -	1,662,037	1,149,730
Machinery and equipment - - - - -	2,883,148	1,883,380
Country club and golf course facilities - - - - -	880,493	838,215
Clay deposit and peat moss bog - - - - -	466,201	462,876
Water distribution and supply system - - - - -	377,957	182,148
Leasehold improvements - - - - -	10,190	10,190
	<u>6,592,177</u>	<u>4,812,640</u>
Less accumulated depreciation and depletion - - - - -	1,656,035	1,375,142
	<u>\$ 4,936,142</u>	<u>\$ 3,437,498</u>

Note G:

Long-term debt consists of the following:

Great Northern Capital Corporation Limited:

	1965	1964
5½% notes due 1977 (U.S. \$4,200,000) (see Note J) - - - - -	\$ 4,129,125	\$ 4,325,750
6% first mortgage bonds due 1970 - - - - -	437,087	670,177
	<u>4,566,212</u>	<u>4,995,927</u>

Subsidiary companies:

2¾% mortgage due 1967 to 1977 - - - - -	97,297	—
5% notes due 1966 - - - - -	24,628	24,628
5% note due 1968 - - - - -	100,000	100,000
5% mortgage - - - - -	—	75,676
5% mortgage due 1967 - - - - -	92,400	140,170
5½% mortgages due 1969 and 1970 - - - - -	110,730	114,730
6% note due 1968 - - - - -	21,621	—
6% mortgage due 1966 to 1968 - - - - -	52,340	348,497
6% mortgages due 1967 to 1977 - - - - -	1,306,982	419,359
6% first mortgage bonds due \$100,000 on March 31 of each year 1966 to 1971 - - - - -	600,000	700,000
6½% mortgage due 1966 to 1970 - - - - -	486,486	—
7% subordinated convertible debentures		
Series A due June 30, 1973 - - - - - (1)	\$4,239,400	
Less intercompany holdings - - - - -	<u>2,818,100</u>	<u>1,421,300</u>
7% mortgages due 1967, 1969 and 1970 - - - - -	293,949	201,339
7¼% mortgage due 1978 - - - - -	500,000	500,000
8% mortgages due 1969 and 1970 - - - - -	285,000	285,000
Miscellaneous mortgages - - - - -	93,988	100,909
Priority creditors - - - - - (2)	380,061	—
Unsecured creditors - - - - - (3)	323,308	—
	<u>6,190,090</u>	<u>4,431,608</u>
Total long-term debt - - - - -	10,756,302	9,427,535
Less current instalments included in current liabilities - - - - -	1,015,098	649,363
	<u>\$ 9,741,204</u>	<u>\$ 8,778,172</u>

(1) The 7% debentures have been issued under a trust indenture and are redeemable at the option of Western Heritage Properties Limited in whole or in part at 104% of the principal amount up to and including June 30, 1966 and at decreasing premiums thereafter prior to maturity plus accrued interest to the date of redemption. The debentures are convertible at the option of the holder into shares in the capital of Western Heritage Properties Limited at \$3 per share prior to redemption or maturity.

(2) Under the terms of a court-approved agreement dated March 29, 1965 made with certain creditors holding collateral or with priority claims, a subsidiary company is required to repay its indebtedness together with interest at 6% by monthly payments. Payments due to priority creditors excluding interest are as follows: 1966, \$83,922; 1967, \$74,324; 1968, \$217,375; 1969, \$2,960 and 1970, \$1,480.

As long as the conditions of the agreement with priority creditors are met, these creditors are precluded from bringing foreclosure actions.

(3) Under terms of an Arrangement dated April 6, 1965 with unsecured creditors and confirmed by the Court, proved and verified claims against a subsidiary company are to be satisfied by the issue of 6% subordinated debentures. Under the terms of the debenture agreement annual payments of the greater of ten per cent of the subsidiary company's net income as defined in the debenture agreement or U.S. \$20,000 including interest and principal are required to be made commencing April 6, 1966.

Of the \$323,308 unsecured creditors' claims at December 31, 1965 the subsidiary company is disputing one claim amounting to \$42,757. All other amounts carried under this caption represent finally negotiated or stipulated amounts awaiting the issuance of the debentures.

Note G continued

Among other provisions of the debenture agreement the subsidiary company may not pay cash dividends, incur collateralized indebtedness in excess of U.S. \$600,000 or unsecured indebtedness, other than debentures, in excess of U.S. \$700,000 until payments (defined as including principal and interest) made on the debentures aggregate at least 20% of the finally determined debenture total.

Under the terms of the Arrangement, the Court will retain jurisdiction until the matters set forth in the Arrangement relative to the issuance of the debentures and payment of tax claims have been complied with.

NOTE H:

Estimated future income taxes have been provided on income deferred in the accounts of the Company to the extent that such income has been reflected in earnings on consolidation. The income tax provision in the consolidated statement of income is calculated on all income subject to taxation, whether payable currently or in the future.

NOTE I:

Minority interest includes the equity of minority shareholders in a consolidated subsidiary company amounting to \$4,432 and a nominal value of \$1 due to the write-off by the Company of the excess of cost of investment in a subsidiary company over the underlying book value of the consolidated net assets of that company and its subsidiary companies which eliminates the shareholders' equity in that company as reflected in the consolidated accounts of Great Northern Capital Corporation Limited.

NOTE J:

The 5½% notes due December 1, 1977 are secured by a floating charge on the assets and undertaking of the Company. Pursuant to the terms of the agreement in connection with the issuance of the notes, the Company may not make any distribution to the shareholders by way of dividends or otherwise in cash or other assets except to the extent that any such distribution shall be represented by consolidated net earnings accrued since December 1, 1957.

On December 1, 1966 and on December 1 in each year thereafter to and including December 1, 1976, the Company will apply to the prepayment of the notes, without premium, the sum of U.S. \$200,000. In addition, the Company is required to apply to the prepayment of the notes without premium the sum of U.S. \$100,000 upon the repayment of the Company's 5¾% promissory notes and the sale of certain land owned by a subsidiary company, which land secures the subsidiary's guarantee of the said 5¾% promissory notes. The Company may prepay the 5½% notes at any time upon payment of a premium of 3 per cent to November 30, 1966, decreasing ¼ per cent annually to November 30, 1976 and without premium thereafter.

NOTE K:

During the year the Company issued 130 shares at \$7.99 each for cash upon the exercise of Series BX warrants. A total of 257,533 shares are reserved for issue as follows:

(1) Share Purchase Warrants and Options:

(a) 47,200 Series CX share purchase warrants giving the right to subscribe to shares as follows:

\$8.36 per share to September 14, 1966.

\$9.31 per share from September 15, 1966 to September 14, 1967.

(b) Options to purchase shares as follows:

9,500 shares at \$5.00 each exercisable:

2,000 shares up to October 31, 1966.

2,500 shares up to October 31, 1967.

2,500 shares from October 31, 1966 to October 31, 1968.

2,500 shares from October 31, 1967 to October 31, 1969.

833 shares at \$10.25 each until December 31, 1966.

(2) Other:

200,000 shares allotted at \$3.50 per share (see Note L).

NOTE L:

By an agreement with Montreal Trust Company, as receiver and manager of Atlantic Acceptance Corporation Limited, dated December 20, 1965, the Company acquired all of the outstanding shares of Commodore Sales Acceptance Limited which company was placed in receivership on July 29, 1965.

Note L continued

The purchase consideration is to be satisfied by the issue to Montreal Trust Company of 200,000 shares of the capital stock of the Company at \$3.50 per share. These shares have been allotted at December 28, 1965 (the date of acquisition) but, before the purchase consideration will be satisfied, certain conditions have to be met, among which is the clearance by the receiver that the subsidiary company has no liens, obligations or encumbrances whatsoever.

NOTE M:

U. S. dollar amounts included in these financial statements are converted into Canadian dollars at the official rate of exchange, which approximates the free rate of exchange at December 31, 1965, except that long-term debt is at the rate prevailing at date of issue.

NOTE N:

A subsidiary company is contingently liable for sale agreements discounted in the approximate amount of \$748,500 at December 31, 1965.

NOTE O:

1964 figures are presented for purpose of comparison only. It should be noted that the income and expenses of Western Heritage Properties Limited for 1964 are included in the accompanying consolidated statements of income and surplus for the six-month period from July 1, 1964 (the effective date of acquisition) to December 31, 1964.

AUDITORS' REPORT

To the Shareholders of

GREAT NORTHERN CAPITAL CORPORATION LIMITED

We have examined the consolidated balance sheet of Great Northern Capital Corporation Limited (incorporated under The Corporations Act, Ontario) and its consolidated subsidiary companies as at December 31, 1965 and the consolidated statements of income and surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income and surplus present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Ontario
May 12, 1966.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants.

